N. A. SHAH
BULLETIN

N. A. SHAH ASSOCIATES LLP
Chartered Accountants

M. A. PARIKH & CO. IS NOW A PART OF N. A. SHAH

Update on changes in audit report of companies

The Ministry of Corporate Affairs ('MCA') have made certain amendments in the Companies Act, 2013 ('the Act') on 24th March 2021, which requires additional reporting in standalone and consolidated audit reports of companies. The changes have been summarized in the following paragraphs:

1. Auditors' have to obtain management representations in respect of following matters and provide assurance that they have not observed anything to the contrary during the course of the audit.
   - Other than as disclosed in notes to accounts, no loans have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the company,
     - in/to any other person or entity, including foreign entities ("intermediaries")
     - with understanding, that the intermediary shall, directly or indirectly lend or invest in other persons or entities identified by or on behalf of the company or provide any guarantee, security or the like on behalf of the company.
   - Similar management representations are required to be obtained and reported upon by the auditors' in a reverse situation where the company has received funds from any person or entity including foreign entities ("funding parties").

2. Compliance with Section 123 of the Act in respect of dividend declared or paid during the year by the company.

Sr.no.1 and 2 are effective 1st April 2021.

3. Usage of an accounting software by the company for maintenance of its books of account which has a feature of recording audit trail (edit log) facility and provide assurance that the same has been operated throughout the year for all transactions recorded in the accounting software and the audit trail feature has not been tampered with and the audit trail has been preserved by the company as per the statutory requirements for record retention. Corresponding amendment has been made in the Rule 3 (manner of books of account to be kept in electronic mode) of the Companies (Accounts) Rules, 2014. This reporting is required to be made in respect of financial years commencing on or after 1st April 2022.

Apart from above, existing clause relating to disclosure of specified bank notes (currently a redundant clause relating to demonetization) have been deleted.

Our comments:

- Overall reporting responsibilities of the auditors' have been significantly enhanced. Auditors will now have to go much beyond normal audit procedures and will now have to review the transactions with respect to loans, investment, new issue of shares in much more detail. This will entail more focus on end use of funds given or received.

- The amendment with respect to the audit trail will now require the auditor to focus on the IT systems and software capabilities including review of the audit trail and inherent software controls over audit trail and system log. Companies will also have to work towards ensuring availability of aforesaid facilities & logs which would facilitate such an audit. In audit of large entities, there may be a need for personnel will in-depth knowledge about IT systems.

- In respect of sr.no.1 and 2, MCA should clarify whether the amendments are effective for (a) financial years beginning on or after 1st April 2021 or (b) audit reports issued on or after 1st April 2021.

- In respect of sr.no.1 above, necessary amendment has been made in Schedule III to the Companies Act, 2013 wherein the Company will have to disclose additional details of such transactions in its financial statements which includes compliance declaration under Foreign Exchange Management Act, 1999 & Prevention of Money-Laundering Act, 2002.

- The Institute of Chartered Accountants of India (ICAI) is expected to issue specific guidance for the auditors to fulfill their reporting responsibilities.

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